

Utility Purchase Feasibility Study Presentation



August 21, 2017



Who Are We?

- **Bill Herrington**

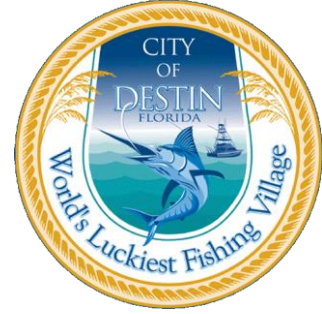
- BS Degree in Mechanical Engineering (Univ. of Florida)
- MBA Rollins College
- Additional graduate study in Finance (Univ. of Central Florida)
- Registered Professional Engineer (#1546)
- Retired from Orlando Utilities as Sr. VP Elect. Business Unit
 - 120,000 electric customers; Annual Budget > \$500 million, > 500 employees in Electric Business Unit
- Engaged in Utility Consulting for 20 years

Who Are We?



- **Jerry Warren**

- BS Degree in Electrical Engineering (Univ. of Florida)
- Thirteen yrs. Experience at Gainesville Regional Utilities (a municipal electric, water, wastewater & natural gas utility)
Served as engineer, Planning Director, Asst. Gen. Mgr. and General Manager
- Employed by international utility consulting firms (RW Beck, RMI) for 11 yrs; headed up First Southwest Company's energy practice for 8 years, sole proprietor 4+ yrs.
- Served as Electric Utility Director for Winter Park Florida for 8 years (Winter Park is the first US city to municipalize electric utility in 40 years)



Why Are We Here?

- City's franchise with Gulf Power gives the City the right to purchase Gulf's facilities within the City of Destin.
- The franchise agreement has been extended to May 19, 2018.
- City has two obvious options:
 - Extend franchise with Gulf Power Company
 - Purchase Gulf's facilities & form a municipally owned and operated electric utility
- City retained **WHH ENTERPRISES, Inc.** to analyze the feasibility of the purchase option

Purpose of Today's Meeting

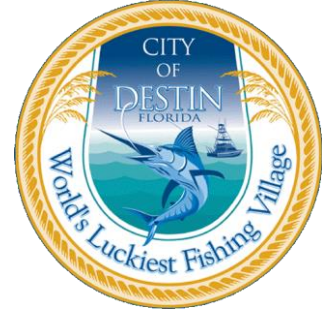


- Present WHH Enterprises study results
 1. Severance & reintegration analysis
 2. Estimate the purchase price to purchase Gulf's facilities
 3. Evaluate power supply market & impacts on feasibility
 4. Prepare a 20-year financial pro forma which include all revenues, and costs of acquisition and ownership
- Questions & Discussion



Perspective

- A City of Destin Electric Utility:
 - 15,600 Electric Customers
 - Peak Demand \approx 78 MW
 - Retail Sales \approx 333,044 MWh/year
- Currently 34 City-owned electric utilities in Florida
 - With Destin added, Destin would be the 16th largest out of 34 based on customer count and retail sales
- Nationwide there are 2009 Public Power Utilities.
 - Median size = 2,031 customers
 - Destin would be larger than 88% of municipal utilities in the US



Presentation Outline

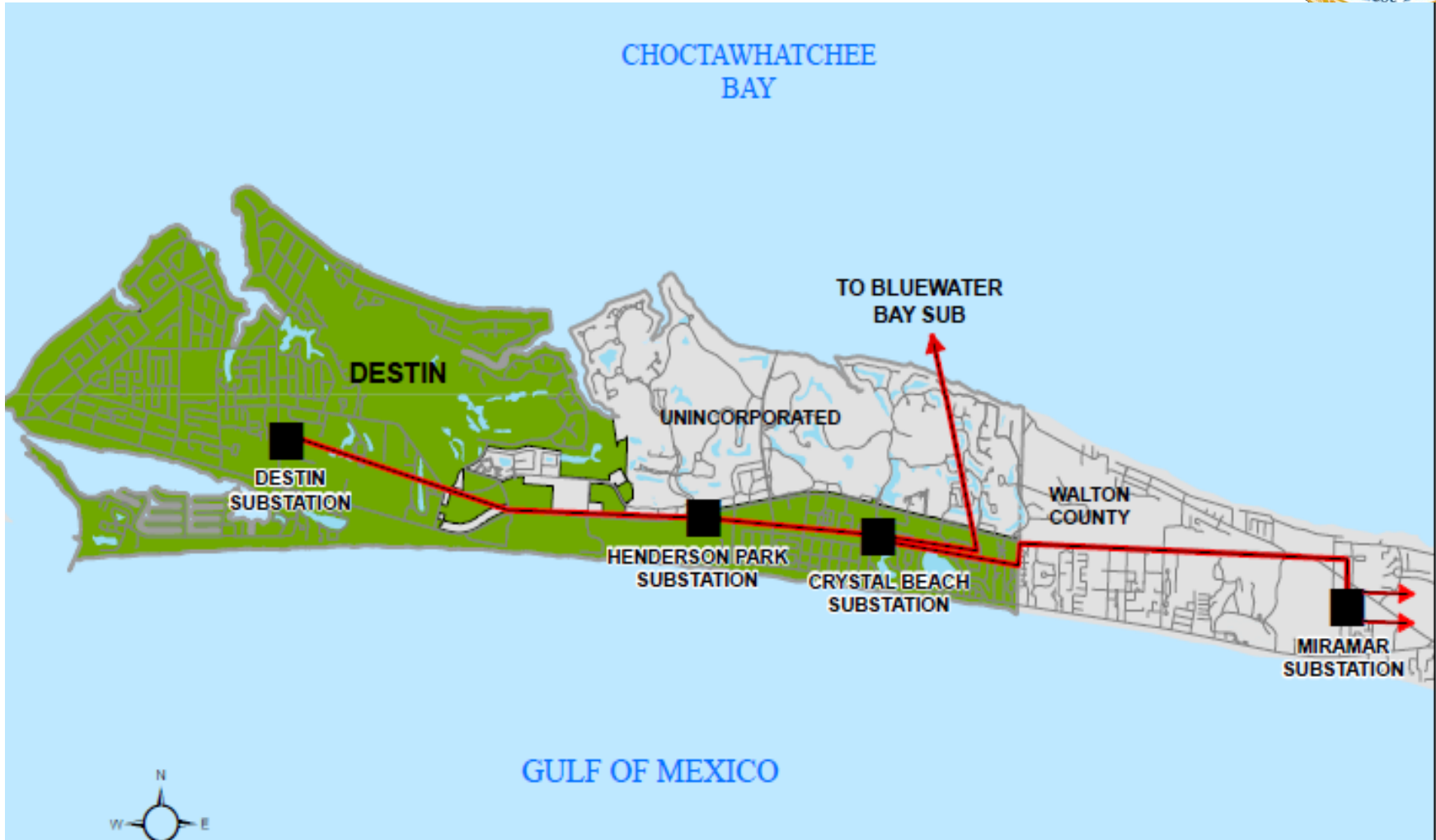
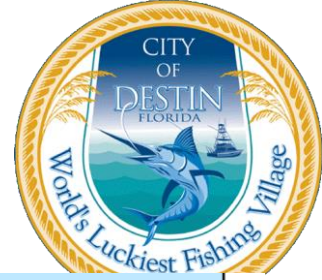
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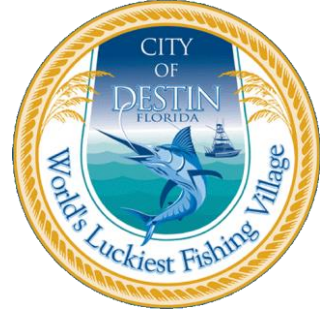


Severance & Reintegration

- Objectives of Severance and Reintegration:
 - To create two electrically separate utilities (i.e. City of Destin and Gulf) that serve customers from each Utility's own facilities
- Goals:
 - Maintain current capacity to serve customers
 - Maintain existing reliability (as much as possible)
 - Minimize cost
- Identify a reasonable plan (not an engineered design, may not be optimal) such that cost can be estimated

S&R Conceptual Plan





Severance & Reintegration (cont'd)

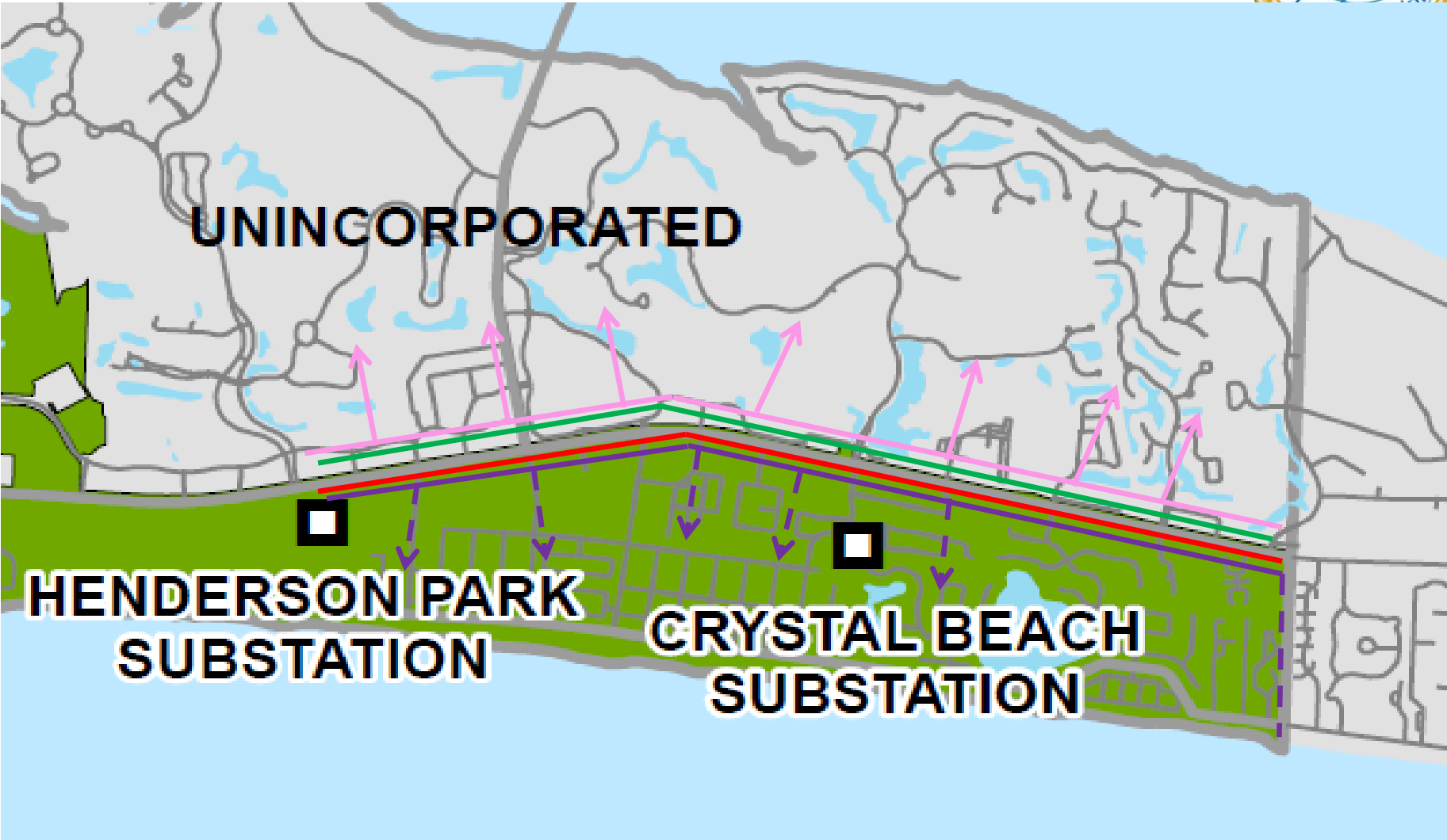
- WHH Conceptual Plan
 1. Gulf retains all transmission, no value to City, remains part of Gulf's integrated transmission system.
 2. City purchases Destin and Crystal Beach Substations; Gulf retains Henderson Park and Miramar subs
 3. City purchases only the distribution facilities required to serve customers w/in City
 4. Distribution facilities to be constructed as required to allow Gulf to continue to reliably serve customers outside the City



Severance & Reintegration (cont'd)

- Severance & Reintegration Issues
 1. Water boundaries help to simplify S&R.
 2. Enclaves require additional distribution for Gulf to continue to serve enclave customers.
 3. US 98. Severance creates two long skinny service areas. Gulf serves area to the north & east and City serves area to the south & west to county line. Logical solution is to build duplicate O/H lines along north side of US 98.

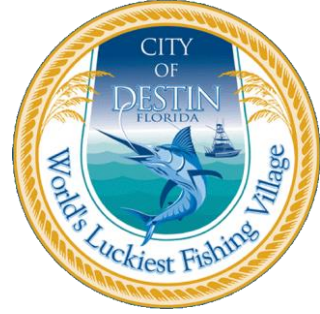
US 98 Challenge





Severance & Reintegration (cont'd)

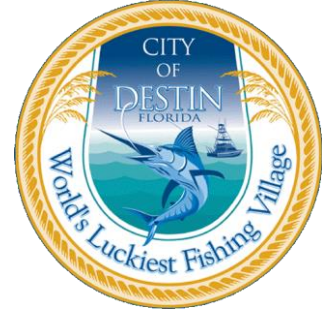
Description of S&R Component	\$
Cost for Gulf to serve county enclaves	\$375,000
Cost required to serve City Customers between Airport Rd and Henderson State Park south of US 98	\$200,000
Cost to construct duplicate O/H wires along north side of US 98 for Gulf to serve its customers + removal of O/H crossings	\$1,075,000
Misc. S&R along US 98	\$160,000
Total Estimated Severance and Reintegration	\$1,650,000



Severance & Reintegration (cont'd)

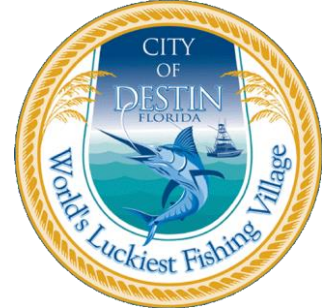
Troublesome Issues:

- Most logical plan from reliability and cost consideration is to build duplicate O/H lines along north side of US 98
 - Eliminates O/H crossings
 - Least Cost
 - Adds O/H wires. UG adds \$1.75 million and dramatically increases the complexity for Gulf to serve area north of US 98.
- Bottom Line \$1.65 is a reasonable estimate of S&R costs



Purchase Price Estimate

- Used Various Approaches
 - Valuation of publicly traded Companies analysis
 - Replacement Cost New Less Depreciation
 - Recent Arbitration (Bushnell – SECO, April 2017)
 - FPL-Oncor Purchase Agreement
 - Discounted Cash Flow analysis



Purchase Price Estimate

Methodology	Estimate
Valuation Of Publicly Traded Utilities	\$51.8 million
Average of replacement Cost New Less Depreciation	\$50.8 million
Estimate based on Bushnell arbitration results (April 2017)	\$49.5 million
FPL – Oncor purchase agreement	\$49.7 million
Discounted cash flow analysis	\$51.2 million
Average	\$50.6 million



Total Acquisition Cost

- **Cost Components included in Pro Forma:**
 - ❖ Purchase Price - \$50.6 million
 - ❖ S&R cost - \$ 1.65 million
 - ❖ Generation stranded cost - \$7.6 million (included for conservatism; City has good arguments against)
 - ❖ Professional Services for acquisition - \$1.9 million
 - ❖ Bond Issuance Expenses - \$759,000
 - ❖ Startup Costs - \$1.56 million
 - ❖ Contingency & Reserves - \$6.9 million
- **Total \$71,000,000**



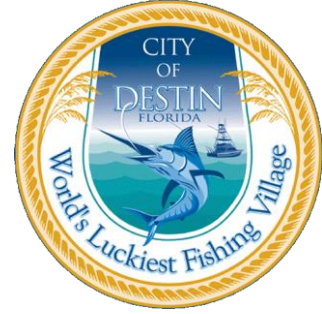
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Bulk Power Supply

- Represents 60-70 % of the cost of retail electricity delivered
 - Florida Marketplace is active and bidders are aggressive
 - Good options available to Destin
- Destin would be considered a large purchaser in the market, power suppliers would aggressively compete for Destin's business.



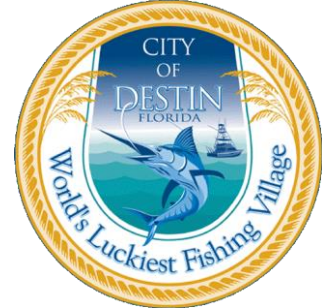
Bulk Power Supply

Logical Options (Active Florida Sellers):

Florida Power & Light Co.	Orlando Utilities Commission
Duke Energy Florida	Florida Municipal Power Agency
Tampa Electric Company	City of Tallahassee
JEA	City of Lakeland
Gulf Power Company	Gainesville Regional Utilities
Seminole Electric Cooperative	Power South Electric Cooperative

Other Options:

Constellation Energy	Southern Power
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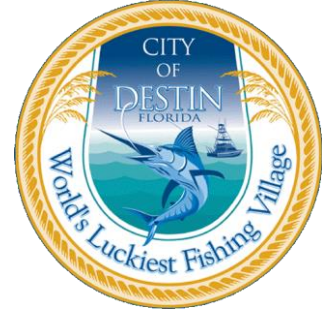
Bulk Power Supply

Market Analysis:

- Market analysis of Florida suggests current price range is \$48.00/MWh to \$53.00/MWh. Projected price for 2017 **\$51.39/MWh**
- Gulf Power average power supply cost included in retail rates = \$70.05/MWh; adjusted to substation delivery = **\$66.70/MWh**
- Difference = **\$15.41/MWh**. For Destin ≈ \$5.3 million/yr

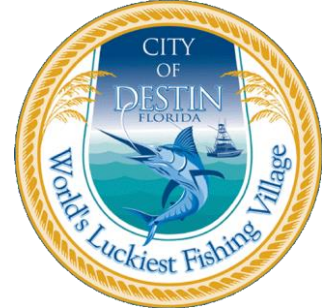


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Pro forma

- Key Assumptions:
- Retail rates equal to Gulf rates
- O&M and A&G costs from national survey of municipal utilities for input into pro forma
- Power Supply based on Florida market survey \$51.39/MWh + Southern Company transmission rates and losses.
- Acquisition Costs per earlier discussion, total financed cost \$71 million.



Pro Forma Results

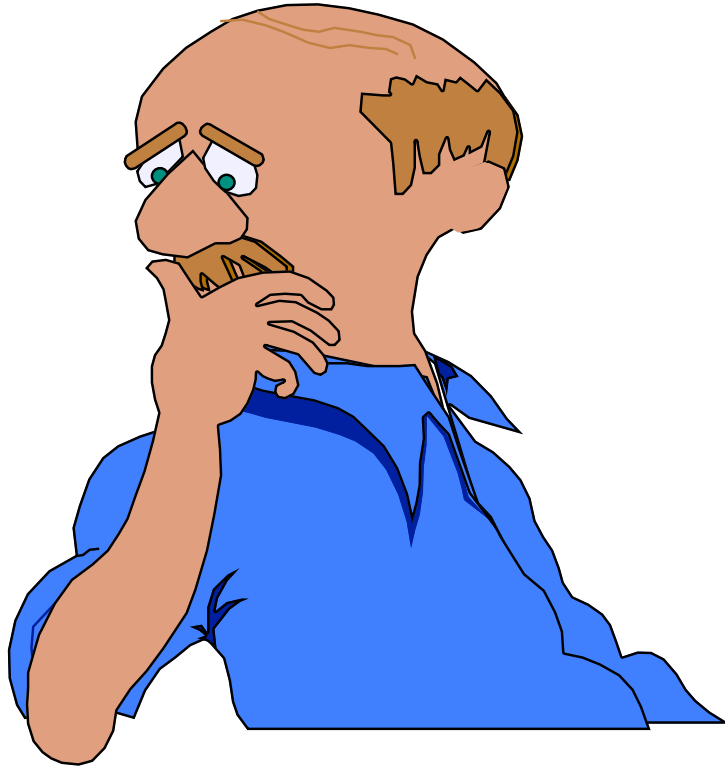
Model Parameter	Results
Minimum Net Cash Flow (yr. 5, 2023)	\$6.6 million
Maximum Net Cash Flow (yr. 1, 2019)	\$7.3 million
Internal Rate of Return	16.0%
Net Present Value of City Investment @ 5.0%	\$89.6 million
Net Present Value of City Investment @ 6.5%	\$67.5 million



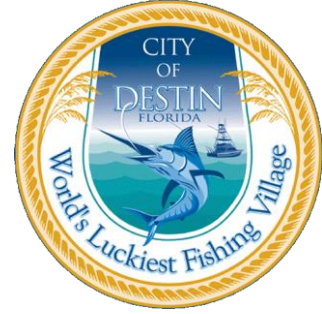
Conclusions

- The purchase of Gulf's distribution electric system by the City of Destin is financially feasible.
- The internal rate of return $\approx 16.0\%$ exceeds the hurdle rate of 6.5% rate by a comfortable 2.5x margin.
- Absent compelling arguments against the proposed purchase, the City should give serious consideration to exercising its purchase rights.
- WHH recommends simultaneous negotiations with Gulf to extend the franchise.

Questions & Answers







Current Florida Residential Rates

- **FPL** **\$106.05**
- **Duke Energy** **\$121.17**
- **Tampa Electric** **\$108.18**
- **Gulf Power** **\$135.83**